Shapoorji Pallonji And Company Private Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3,093.75 (Reduced from 3,258.75)	CARE BBB-; Negative	Reaffirmed
Long Term / Short Term Bank Facilities	16,906.24 (Enhanced from 16,741.25)	CARE BBB-; Negative / CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of long-term and short-term bank facilities of Shapoorji Pallonji and Company Private Limited (SPCPL) factors in long-established track record of the Shapoorji Pallonji (SP) group in infrastructure creation space, demonstrated project execution capabilities, satisfactory order book position providing medium term revenue visibility. SP group is the single largest minority shareholder with 18.37% stake in TSPL, which helped the group in completing large debt raising programs in the past. Also, SPCPL holds stake in listed/unlisted entities which have considerable market value. Ratings also factor in monetisation of stake in a listed entity by SPCPL in September 2024, the proceeds of which (amounting to ~₹840 crore) would largely finance significant debt repayment obligation of ~₹998 crore for the fiscal FY25. Besides, developments considering monetisation of port assets and Afcons Infrastructure Limited (AIL, rated CARE A1+) at group level are also some credit positives. In mid-September, AIL received final comments and observations from Securities Exchange Board of India (SEBI) and in-principle approvals from Stock Exchanges for progressing their Initial Public Offer/Offer for Sale/PreIPO which is expected to aid deleveraging of debt at group level. IPO is expected to be completed by October 2024. SPCPL currently holds ~16% stake in AIL (pre-IPO) which post listing is likely to provide financial flexibility to the company. Any deviation in envisaged listing shall remain a key monitorable.

SPCPL acts as a holding-cum-operating company for the entire group and proposed to reorganise the real estate and other business in separate verticals with SPCPL acting as holding company for EPC business alone. Reorganisation will unlock capital at SPCPL level, while simultaneously also reducing quantum of support/exposure to its group companies. Towards this, Shapoorji Pallonji Real Estate Private Limited (SPRE) has been formed as the real estate Holdco and real estate project SPVs (~40 nos), which have already been transferred to SPRE in July 2024.

Ratings also factor in the strong order book position of ₹27,730 crore as on March 31, 2024, which provides medium term revenue visibility. SPCPL added new orders ~₹6000 crore in H1FY25 which and completion of major legacy projects is expected to add to revenue growth and profitability.

Ratings are tempered by inordinate delay in securing access to enhanced working capital bank limits in contrast to earlier expected timelines. The company secured working capital limits from few banks; however, documentation was not completed due to delays in security creation due to the absence of NOC from a term lender. Considering delay in securing working capital limits, the performance in FY24 has been subdued. CARE Ratings Limited (CARE Ratings) understands the lead bank under consortium renewed sanction of limits (funds based, and non-fund based) amounting to ₹1,000 crore of fund-based limits and ₹12,600 crore of non-fund-based limits in August 2024. The management articulated that security perfection discussions is at advanced stages and this is expected to be resolved by Q3FY25. SPCPL's financial performance remained subdued in the last two years with muted revenue growth, moderate operating profit and weak debt coverage metrics. Working capital sanction is expected to aid business growth by providing it required working capital financing. Hence, timely fructification of enhanced working capital limits, which have been delayed so far shall be crucial and considering this the outlook on rating continues to remain negative.

Further, the rating takes into cognisance delays in refinancing/fund raising plans at the promoter level entities as against timelines articulated by management. This resulted in elevated refinancing risk especially, considering close linkages with group entities in

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

the form of corporate guarantees. However, as conveyed by the company's management, the group is at an advanced stage of refinancing borrowings raised through the pledge of Tata Sons Private Limited (TSPL, holding company of the Tata Group) stake held by promoter entity- Sterling Investment Corporation Private Limited (SICPL). Consequent to aforesaid fund raising at SICPL level, SPCPL's guaranteed debt obligation is expected to reduce. Hence, timely fructification of fund raising is important.

Ratings are also constrained by SPCPL's high group exposure in the form of loans/advances/corporate guarantees and high leverage at group level. Group exposure has been reduced over the last few years with recovery of advances and fall off guarantees. Nevertheless, outstanding guarantee remained high at ₹3,498 crore as on March 31, 2024 (including the performance guarantee). Per CARE Ratings, for outstanding corporate guarantees of SPCPL, promoter holding entities would support repayment requirement, if any, on the guaranteed obligation. Besides, being the group's flagship company, promoters have been infusing to support operations in FY24 and H1FY25 Promoters have infused ~₹800 crore and ₹150 crore, respectively.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Significant reduction in debt as well as contingent liabilities at SPCPL level.
- Scaling up of operations with improvement in PBILDT margins to 6-7% from core business operations on sustained basis

Negative Factors

- Continued weakening of debt coverage metrics with interest coverage below 1.5x from FY26 onwards on sustainable basis
- Delay in securing working capital limits along with completion of fund raising/monetisation plans of the group beyond December 2024
- Crystallization of un-envisaged liabilities on SPCPL impacting the liquidity profile

Analytical approach:

Standalone, factoring in credit support provided to group entities. While SPCPL is a construction company, it also acts as a holding company for group companies involved in businesses across segments. Consequently, it extended substantial support to its subsidiaries/associates, in the form of investments, advances and corporate guarantees, which are also factored in assessment.

Outlook: Negative

SPCPL's credit profile is expected to remain weak due to prolonged delay in achieving adequate funding tie-up to support its business operations in the near-to-medium term. Hence, the outlook continues to remain negative. Availability of working capital lines with revival in business operations, successful fund raise and/or rationalisation of indebtedness (including guaranteed debt) may lead to revision in outlook to Stable.

Detailed description of key rating drivers:

Key strengths

Experienced promoter group

With over 150 years of operations, Shapoorji Pallonji (SP) group is one of the India's oldest and well-reputed business groups in construction, infrastructure and real estate space. In its operations, SP group has built diverse civil and engineering structures such as factories, nuclear waste handling establishments, landmark stadiums and auditoriums, airports, hospitals, hotels, housing complexes, water treatment plants, roads and power plants, and Floating Production Storage and Offloading (FPSO) around the world. As the group's flagship company, SPCPL benefits from vast experience of its qualified promoters and management and from the group's resourcefulness.

Satisfactory order book

SPCPL had a robust order book of ₹27,730 crore as on March 31, 2024, which translates in orderbook to gross billing of 3.73x providing revenue visibility for the medium term. In the current fiscal, order book addition has been satisfactory with SPCPL adding ~₹6,000 crore worth order in first H1FY25. The order book is well-managed across clients (government to private orders at ~64:36), geographies and segments. A large part of the order book is from clients outside group with group orders comprising ~11% orders from the group as on March 31, 2024. SPCPL has been majorly involved in industrial and building construction space with projects including construction of office space, government headquarters, sports complex, commercial complex, and ad residential buildings among others. SPCPL does not have exposure to development projects in BOT/PPP segment.

Financial flexibility at group

SP group is the single largest minority shareholder of Tata Sons Private Limited (TSPL, holding company of the Tata group) with 18.37% stake, which has been providing it financial flexibility. SP group has raised funds at promoter holding entities backed by pledge of TSPL's shares. In June 2023, promoters raised ₹14,300 crore by Cyrus Investments Private Limited (CIPL) which holds 9.185% stake in TSPL. Proceeds were used to refinance existing borrowings raised at promoter level and to refinance debt maturing at group entities. The management articulated that the group is at advanced stage of fund raising through SICPL shareholding which also holds 9.185% stake in TSPL. While there has been shift in milestone for such proposed fund raising, CARE Ratings understands there are developments on this front and timely fructification of said plans would be crucial.

Further, most of groups' businesses are held by SPCPL as subsidiaries, JVs and associates with considerable market value. Subsidiaries, JVs and associates hold several land parcels in the country which can be monetised. The management also continues to maintain its stance of pursuing divestment options to reduce the overall debt at group level. SPCPL has sold stake in a listed entity, the proceeds of which (~₹840 crore) would largely finance significant debt repayment obligation of ~₹998 crore for the fiscal FY25.

Gopalpur port monetisation has now achieved an advanced stage with state government approval accorded. AIL also received SEBI approval for IPO with an amount of ₹8400 crore proposed (comprising an offer for sale and pre-IPO of ₹7150 crore and primary issuance of ₹1250 crore). Proceeds will be used to reduce the debt at group level.

In the current fiscal, as part of the group's restructuring, Shapoorji Pallonji Real Estate Private Limited (SPREL) has been formed as the real estate Holdco and some SPCPL's real estate assets have been transferred to SPREL. The company plans to monetise the real estate vertical in the next two to three years, which is expected to finance debt at promoter level entities.

Key weaknesses

Prolonged delay in working capital tie up impacting business operation

The company witnessed inordinate delays in securing access to enhanced working capital bank limits, in contrast to expected timelines. The company secured working capital limits from few banks; however, documentation was not completed due to delays in security creation due to the absence of NOC from a term lender. Considering delay in securing working capital limits, performance remained subdued over the last two years. SPCPL reported revenue of ₹7,780 crore in FY24 (provisional) with profit after tax (PAT) of ₹822 crore. PAT has been largely supported by profit on sale of investments.

Operating profit has been weak over the last few years, which resulted in weak debt coverage metrics.

Hence, availability of working capital limits without further delays are critical from a credit perspective.

High group exposure

In the present form, SPCPL operates as holding-cum-EPC entity, and hence, has large exposure to group entities through investments/advances and guarantee extended. Aggregate exposure to group companies in the form of investments/loans stood at ~₹9,650 crore as on March 31, 2024, which is ~1.03x the FY24 net worth. Outstanding guarantee stood at ~₹3,498 crore as on March 31, 2024. For guarantees extended, the management has stated that no support from SPCPL is expected, and promoter-holding entities would support such entities on need basis.

SPCPL has close linkage with promoter group entities to meet obligations towards dues under guarantees issued. Apart from contingent liabilities, SPCPL faced crystallisation of indemnity claims from SWREL in FY24. This was repaid by fund infusion from promoters. CARE Ratings understands that indemnity liability for FY25 would be met through fund infusion by promoters. Continuity of promoter support in a timely manner shall be important.

Elongated working capital cycle

SPCPL has been witnessing extended collection days and gross current asset days with normal debtors elongated, contract asset built up due to milestone-based billings/time taken for work certification by the government clients, and high receivables from group companies. While there has been some traction in debtors' recovery in the last one year with recovery of few long-pending receivable, overall debtors continue to remain high. Average collection period (including net contract assets) remained high at 243 days in FY24.

On absolute terms, debtors including contract assets have reduced by ~₹1,080 crore (₹7,059 crore as on March 31, 2022, to ₹5,978 crore as on March 31, 2024) with debtors as % of revenue reducing from 114% in FY22 to 82% to FY24. Ability to improve its receivable and cashflow position is important from a credit perspective.

Moderate financial position

SPCPL's consolidated debt and non-consolidated real estate business/EPC debt reduced from ₹37,170 crore as on August 2020 to ~₹19,724 crore as on March 31, 2024. Reduction in SPCPL consolidated external debt through planned asset monetisation is crucial from deleveraging perspective and restoring financial flexibility.

Liquidity: Stretched

Due to the absence of working capital limits and stretch in debtors, liquidity remained stretched. SPCPL had free cash and bank balance of over ₹406 crore as on July 31, 2024. SPCPL has principal repayment of ~₹994 crore (including mandatory repayment of ₹870 crore) in FY25, which has been largely addressed through funds raised by investment monetisation. The company already received ~₹840 crore on September 30, 2024, as proceeds from monetisation of stake sale of a listed entity for partial repayment of aforesaid obligation.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non-financial sector
Rating Outlook and Credit Watch
Investment Holding Companies
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Construction

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

SPCPL is the holding-cum-operating and flagship company of the SP Group. It is involved in construction activities with a reputed clientele and presence in Indian and overseas markets. SPCPL is held by the Mistry family through different group entities. The SP Group is an extensive conglomerate with business interests in several sectors such as construction, EPC, Oil & Gas, real estate, renewable power, ports, roads, shipping and logistics, consumer products, and textiles among others. Most of the groups' businesses are held by SPCPL as subsidiaries, JVs and associates.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Provisional)
Total operating income	7,582	7,780
PBILDT	15	59
PAT	-679	886
Overall gearing (times)	0.86	0.63
Interest coverage (times)	0.02	0.07

A: Audited Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March - 2031	3093.756@	CARE BBB-; Negative
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	1400.00	CARE BBB-; Negative / CARE A3
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	15506.24	CARE BBB-; Negative / CARE A3

@as on June 30, 2024

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (30-Sep-21)
2	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	-	1)Withdrawn (30-Sep-21)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	15506.24	CARE BBB-; Negative / CARE A3	1)CARE BBB-; Negative / CARE A3 (22-May-24)	1)CARE BBB; Negative / CARE A3 (01-Dec-23) 2)CARE BBB+; Negative / CARE A3+ (09-Oct-23)	1)CARE A-; Stable / CARE A2 (04-Oct-22) 2)CARE A-; Stable / CARE A2 (14-Jun-22)	1)CARE BBB; Stable / CARE A3+ (06-Oct-21)
4	Fund-based - LT-Term Loan	LT	3093.76	CARE BBB-; Negative	1)CARE BBB-; Negative (22-May-24)	1)CARE BBB; Negative (01-Dec-23) 2)CARE BBB+; Negative (09-Oct-23)	1)CARE A-; Stable (04-Oct-22) 2)CARE A-; Stable (14-Jun-22)	-
5	Fund-based - LT/ ST-Working Capital Limits	LT/ST	1400.00	CARE BBB-; Negative / CARE A3	1)CARE BBB-; Negative / CARE A3 (22-May-24)	1)CARE BBB; Negative / CARE A3 (01-Dec-23) 2)CARE BBB+; Negative / CARE A3+ (09-Oct-23)	1)CARE A-; Stable / CARE A2 (04-Oct-22) 2)CARE A-; Stable / CARE A2 (14-Jun-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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